

South Carolina Board of Economic Advisors

Statement of Estimated State Revenue Impact

Date: May 21, 2007 (revised) (As Amended April 23, 2007 by the House Ways & Means Committee)

Bill Number: S.B. 243

Authors: Setzler, Leatherman, Fair, and Elliott

Committee Requesting Impact: House of Representatives

Bill Summary

A bill to amend the Code of Laws of South Carolina, 1976, by adding Chapter 46 to Title 11 so as to establish the "South Carolina Hydrogen Infrastructure Development Fund", to authorize the South Carolina Research Authority to administer subgrants for the purpose of promoting the development of hydrogen production, to allow the fund to receive donations, grants, and other funding as provided by law, to allow a taxpayer who makes a contribution to the fund to receive a tax credit subject to certain limitations, to require the General Assembly to appropriate a specific amount from the General Fund of the State to the fund, and to require state agencies to consider purchasing equipment and machinery operated by hydrogen or fuel cells or both of them; by adding section [12-6-3630](#) so as to allow a credit against the income tax, license fees, or insurance premium taxes for qualified contributions made to the fund; by amending section [12-36-2120](#), as amended, relating to sales tax exemptions, so as to allow a sales tax exemption for equipment or machinery operated by hydrogen or fuel cells or used to distribute hydrogen and for equipment and machinery used predominately for research and development involving hydrogen or fuel cell technologies, and to allow a sales tax exemption for building materials, machinery, or equipment used to construct a new or renovated building located in a research district.

REVENUE IMPACT^{1/}

The bill, as amended, would reduce corporate and individual income tax, premium insurance tax and license fee revenue by \$4,412,500 for FY 2007-08. The sales tax exemptions would reduce sales tax revenue by \$5,100,000 for FY 2007-08. Of this amount, General Fund sales and use tax revenue would be reduced by an estimated \$3,400,000, Education Improvement Act (EIA) funds would be reduced by an estimated \$850,000, and the Homestead Exemption Trust Fund would be reduced by an estimated \$850,000 in FY 2007-08. The total reduction in General Fund revenue is estimated to be \$9,512,500 for FY 2007-08.

Explanation of Amendment (April 23, 2007) – By the House Ways & Means Committee

This amendment would add Section 12-14-80 to allow a manufacturer an economic impact zone credit pursuant to Section 12-14-60 for capital investments placed in service outside of an economic impact zone after June 30, 2007. The manufacturer must meet the following criteria to qualify - have a facility in at least one economic impact zone; be established in an activity listed under the NAICS code 326; employ at least 5,000 full-time workers in this State and have capital investment of not less than \$850,000,000; and will invest an additional \$350,000,000 in this State before July 1, 2011.

An economic impact zone is a county or municipality that is located within 50 miles of the boundaries of a federal military installation or applicable federal facility that has been adversely impacted by the closing, realignment, or downsizing of the installation or facility. Currently, 27 counties qualify as economic impact zone counties. According to the Department of Revenue, the amount of the tax credit may be applied as an economic impact zone credit pursuant to Section 12-14-60, or against job tax credits earned pursuant to Section 12-6-3360, or up to fifty percent of the employee's withholding against the employer's quarterly estimated state income tax payments. The employer may select either of the three tax credit options not to exceed the amount of the economic impact zone tax credit.

South Carolina Board of Economic Advisors

Statement of Estimated State Revenue Impact

The economic impact zone credit is five percent of qualified manufacturing and productive equipment property. The property must be tangible personal property under Sections 168 and 1245 of the IRS Code and used as an integral part of the manufacturing process. Manufacturing equipment amounts to 20 percent of the total cost of a typical capital investment project. Multiplying a capital investment of \$350,000,000 by 20 percent and applying an economic impact zone credit of five percent yields a reduction in General Fund corporate and individual income tax revenue of an estimated \$3,500,000 in FY2007-08. Any unused credits may be carried forward for ten years.

This act takes effect July 1, 2007, and applies for capital investments placed in service outside of an economic impact zone after June 30, 2007, and for quarterly state withholding returns due on and after that date. This amendment would result in a reduction of General Fund corporate and individual income tax revenue of an estimated \$3,500,000 in FY2007-08.

Section 6 of the amendment creates a sales and use tax exemption for a taxpayer that constructs and operates a qualifying amusement park or theme park. The taxpayer is required to make a capital investment of at least \$250,000,000 at a single site and create 250 full-time jobs and 500 part-time or seasonal jobs. The eligible taxpayer must meet the required investment and job creation requirements over a five-year period. According to information provided by the developer of an amusement park in Horry County, an estimated \$65,000,000 of capital investment in amusement rides and park venues, net of land acquisition costs, is expected to be under development in FY 2007-08. A sales and use tax exemption on the amusement rides and venues would reduce sales and use tax revenue by an estimated \$3,900,000 in FY 2007-08. Of this amount, General Fund sales and use tax revenue would be reduced by an estimated \$2,600,000, Education Improvement Act (EIA) funds would be reduced by an estimated \$650,000, and the Homestead Exemption Trust Fund would be reduced by an estimated \$650,000 in FY 2007-08.

Explanation of Bill as Amended February 14, 2007

This bill would provide an income tax, premium insurance tax or license fee credit of 25% of contributions to the South Carolina Hydrogen Infrastructure Development Fund. Based upon information provided by the South Carolina Research Authority and the South Carolina Hydrogen and Fuel Cell Alliance, we estimate total contributions to the fund of \$3,650,000 in FY 2007-08, resulting in a reduction in income tax, premium insurance tax and license fees of \$912,500. The bill would also allow a sales tax exemption for purchases of equipment or machinery operated by or used to produce hydrogen or fuel cells and for building materials used in constructing or renovating a building in a research district and machinery or equipment located in a research district if the district uses the exempt funds to reinvest in hydrogen or fuel cell research. We do not anticipate a reduction in sales tax revenues due to the exemption of hydrogen and fuel cell equipment since the technology is not currently in our base revenues. For FY 2007-08, we estimate sales of \$20 million for building materials used in a research district and reinvested in hydrogen or fuel cell research with associated sales taxes of \$1,200,000. The total reduction in General Fund revenue for FY 2007-08 is estimate to be \$2,112,500.

/s/ WILLIAM C GILLESPIE
William C. Gillespie, Ph.D.
Chief Economist

Analysts: Jolliff / Martin

^{1/} This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact, or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.